BUSINESS CONDITIONS & FORECASTS

330 919 A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y. . . . SEPTEMBER 21, 1989

The President's Scratch-Pad

- Most business men are probably trying to forget the deplorable and unlooked-for economic collapse of 1937, but while this is understandable, it is hardly a wise thing to do. It would be much better—and profitable - to review constructively the causes and the development of the recession. A really helpful analysis of the 1937 downturn which has been made for The Review of Economic Statistics by Sumner H. Slichter, Professor of Business Economics at the Harvard Graduate School of Business Administration, came to my attention during the last week.
- It is interesting to be reminded that in the Spring of 1937 most business observers expected there would be a slackening in Summer business activity and an upturn in the Autumn. You will recall that just the reverse was the case. Summer was much better than expected, but the anticipated new orders after Labor Day did not materialize. Summer activity was good because of huge forward buying which propped business until the end of August.
- ¶ Professor Slichter points out that longterm confidence was missing from the 1937 situation. "Why," he asks, "did the recovery which started in 1933 fail to develop in the usual manner from buying for inventory replenishment, replacement of equipment, and cost reduction into buying for major improvements and expansion based on long-term plans?" He suggests several reasons for this—the labor situation, the Supreme Court controversy, the unsatisfactory relationship between Government and business—but believes that the most important factor was the low level of profits prevailing throughout the recovery and during the boom.
- 9 Besides being a penetrating "post-mortem" analysis of the recession, Professor Slichter's article provides an excel-lent opportunity for comparing past conditions with current and future developments and judging to a degree the likely course of business.

alvin E. Dodd

Methods Used in **British Labor** Relations

No Collective Bargaining Law

Closed Shop and Check-Off Rare

Probably the most important document on labor relations now in circulation is the report of the President's Commission on Industrial Relations in Great Britain, which was submitted to the Secretary of Labor on August 25.* The report is concise and thorough and reflects diligent study of the British situation.

BRITISH METHODS

Here are some of the outstanding characteristics of English labor relations techniques as described in the report:

Collective Bargaining: There are no laws requiring bargaining, but the govern-ment encourages it, and it is general practice in most industries.

Closed Shop: Closed shops are un-common, but exist in practice in some places because the employers may prefer only union men.

Check-off: The check-off is uncom-

Picketing: Picketing of a peaceful nature is permitted, but intimidation of any kind is not allowed.

Strike-breaking: Employers do not try to operate during a strike. Seldom does management break a strike by hiring new men to take the place of the strikers.

Unauthorized Strikes: Unauthorized strikes over local grievances are fairly common, but the unions act quickly to end them. The reason for the comparative frequency of such strikes is that agreements are usually on an industry-wide

(Continued on last page)

*Copies of the report by the President's Commission have not been generally distributed. If you desire a copy, drop a card to AMA headquarters and we shall make an afform blain one for you.

UNIVERSITY OF WASHINGTOP

BUSINESS OUTLOOK

Current Reports Are Favorable

Many Indexes Rising Markedly

"A recovery is under way, and it can be expected to continue until pressing needs are as far as possible satisfied," declares the National City Bank of New York in its monthly letter, which, incidentally, is one of the most authoritative and carefully prepared statements on business conditions that appears.

The bank goes on to say that whether the rise will continue for any appreciable time depends upon (1) whether industry will be able to keep prices down, and (2) whether the capital goods industries, such as those that manufacture machinery, rail and utility equipment, and the heavy construction industry, participate in the rise. It is pointed out that no section of business can prosper unless others prosper.

Observers of business trends generally agree that a recovery movement has started and is gaining some momentum. They are not particularly optimistic about the duration of the movement, however. It has been pointed out that there has been no change in fundamental conditions the capital markets are apathetic toward new enterprises; venturesome capital is still scarce; labor conditions are still unsettled. Added to these are threats of war abroad. But currently there are many favorable business headlines in the news most of which reflect deferred demand conditions. Building activity, which has been the great disappointment of the recovery drive, has at last begun to display signs of genuine encouragement. Steelingot production has reached the highest point since November 1, 1937. Advance orders on new cars are reported as encouraging. The Federal Reserve Board index for September, which is not yet published is expected in some quarters to show a sharp advance. For the present, at least, the outlook is good, and alert businesses will push ahead on sales.

NESS CONDITIONS & FORECAST

Alexander Hamilton Institute

The recovery, while leaving business well below the levels of a year ago, makes

up for the ground lost during 1938; from

a rate of activity near the lows of 1934,

business has reached a level more in line

with the recovery phase of three years ago

On August 29 the pound sterling

dropped to the lowest price since May,

1935, as the flight of European capital

was accelerated by European political ten-

From a technical standpoint, while the

(September 15).

sion (September 3).

utlook

loney and

redit

9—PREPARED MONTHLY BY THE AMERICAN ASSOCIAT

Babson Statistical Organization

It is highly probable that the September

index of the physical volume of business

will be higher than the figure for August;

the speed of the decline, pump-priming and huge unemployed reserves call for an

urgent and rapid recovery (September 5).

Among our forecasts for the Fall is that

money rates will continue at near record

low levels-a powerfully bullish factor-

and credit will be abundant, both through

the banks and Uncle Sam (September 5).

Security Markets	From a technical standpoint, while the present trading area may be an interlude in a bull market, it contains a suspicious number of resemblances to a "top" or period of distribution; among these is the repeated failure of prices to equal former highs (September 15).	The press of the country has brought the war issue vividly before the public, and there is much fear among investors as to the safety of their securities; our position is that there will be no general European war in 1938 (September 12).	Should the war danger be dispelled, and business improvement gain momentum, then it would be possible for this long pause in the advance to bring the market enough in line to permit a further substantial run-up to develop before a full-sized correction eventuates (September 10).	The Europea markets a thoro following Cha the Sudeten u clined and the (September 17
Production		The steel industry is in the midst of a very strong recovery; auto production should forge ahead rapidly; textile markets remain favorable; indications are that industrial activity is again in stride (September 5).	Textile production already has recovered sharply, and the outlook is for sustained revival; in this second largest industry in the country inventories have been reduced from last year's levels and this should result in increased purchases from manufacturers (September 9).	Production rise, but the in crisis on Amer- in a number of sumers' goods- ment of orders a hand-to-mou
Distribution	The seasonally adjusted index of the value of department store sales, based on 1923-1925 as 100, rose to 85 in July from 82 in June; compared with a year ago, sales were 12% lower in July and 10% lower in the first seven months (September 3).	As measured by the Babson Index of Retail Distribution, dollar value of retail trade this Fall should advance close to the year-ago level; the wholesale price trend looks firm; for the general level of retail prices, the period of decline is over (September 5).	Retail trade has turned brisk on arrival of cool weather, and depleted inventories are forcing increased buying from manu- facturers; rayon deliveries scored another new high in August (September 10).	Department end of July we 25 base, as cor August, 1937; not since ceas the process of been complete
Building	After reaching the highest volume for the year in June, building contracts receded in July to a level 7.1% below the June peak; the curtailment in July was confined, however, to non-residential contracts (August 27).	Latest building statistics display a continued erratic, see-saw movement; August is not likely to show the substantial gains which July recorded; however, this erratic characteristic of building is not unusual (September 5).		Building pe an excellent sl credit and spe ernment contir erful stimulati the construction
Agriculture	As a result of a little inflationary spurt, the price level of farm products rose in July for the first time in a year, despite the depressing effect of a seasonal increase in the quantity of products marketed (September 10).	Because of the fluctuation in prices during the harvest period, it is difficult to forecast what the yearly crop outcome will be; however, judging by Government predictions of production and recent prices, we estimate that crop values for 1938 will be about 13% under 1937 (September 12).		Government cotton and cor- but not suffici ment toward tion will be s billion-bushel ago (Septemb
Commodity Prices	Wholesale commodity prices, after rising in June and July from the low point in May, apparently reversed their course in August; in the first half of the month, the index was 78.2 as compared with 78.6 in July; in August, 1937, the index was 87.5 (August 27).		Commodity prices, though still irregular, have apparently passed the low and should become stronger (September 3).	Commodity to the tune Europe; coppe strong positio Chicago pit (
Labor and Wages	Reversing the trend of the previous three months, factory payrolls in July showed a slight rise contrary to the usual seasonal trend; the average seasonal decline is 3.9%; the increase in July amounted to 0.4% (September 10).	July figures, latest Department of Labor data available, show advances of 0.7% in factory employment and 0.4% in payrolls; as a rule, July shows declines in both these items; while July totals were far below those of July, 1937, 40,000 factory wage earners returned to work (September 12).		All signs p gressional pro Act; it is prob found to nega that employer Act (September
Foreign Trade and Conditions	Economic activity in England began to decline about September last year; between September, 1937, and June, 1938, the index of industrial activity decreased from 113.5 to 104; this was much less pronounced than the decrease in the United States (September 10).	This country should gain far more than it loses under the Anglo-American Trade Pact; trade in both countries will be stimulated (September 5).	Following the current lull in buying in anticipation of tariff concessions, a spurt in trade should occur when the Anglo-American agreement is signed; efforts to expand foreign trade lay the groundwork for a more diffused recovery than was attained in the period up to 1937 (September 3).	The recover and Canada abroad; develo that no easy so tion is in sigh the "worst is 17).

Busine

Though Hitler's 1 the resultant outbrea Czechoslovakia have there is no good re substantial America tinue even if the (September 17).

Brookmire, Inc.

Stepping up of motor output on new models together with accelerated Govern-ment spending should soon give impetus to the general upswing, and indications

are that business will enjoy further siz-

The existing supply of idle funds, with

a relatively light demand therefor, indi-

cates strongly that for quite some time

money rates will remain low and keep

bond prices high (September 10).

able expansion (September 3).

During the first v sterling-dollar rate lowest level in mor foreign exchange mentioned as the figu may be stabilized

The European cri roughg ultima e stock 17).

index iniurio erican b of trad s—in rs and outh ba

t stor ere bac ompare sed, it f liqui ted (Se

ermits showin ending inue, t tion to ion ind

nt estir orn har ciently prices substa crop ber 17

y mark of m per, lea ion, ar (Septe

point ogram obable ers are ber 17

ery trea still elopme settlem th and

. SEPTEMBER, 1938

ATION — Reproduction Not Permitted

Business Week

thitler's pugnacious speech and ltant outbreaks of his followers in lovakia have given business a jolt, no good reason to doubt that a lial American recovery can conven if the Czech crisis persists ber 17).

g the first week of September the dollar rate slumped to \$4.82, the evel in more than three years; in exchange circles \$4.50 is now ed as the figure at which the pound stabilized (September 10).

European crisis has given securities a thoroughgoing case of the jitters; as Chancellor Hitler's speech and teten ultimatum, bond prices dend the stock market broke severely ther 17).

action indexes show a continued to the injurious effect of the Czech American business has been noted mber of trades—notably basic congoods—in the form of postponet orders and transfer of activity to to-mouth basis (September 17).

rtment store inventories at the fully were back to 67% of the 1923, as compared with a 78% peak in 1937; if the declining trend has ce ceased, it may be claimed that cess of liquidation in this field has ompleted (September 10).

ling permits during August made illent showing; so long as the easy and spending policies of the Govt continue, there should be a powimulation to general business from struction industry (September 17).

ernment estimates of spring wheat, and corn harvests have all declined, t sufficiently to alter market sentitions of the substantially lower than the bushel crop forecasted two months eptember 17).

modity markets danced this week tune of martial airs in central ; copper, lead and zinc assumed a position, and wheat rose in the o pit (September 17).

signs point to some sort of Connal program to amend the Wagner is probable that some way will be to negate at least part of the claim mployers are "gagged" under the eptember 17).

recovery trend in the United States Canada still has no counterpart; developments in Europe indicate easy settlement of the Czech situain sight and that in all probability yorst is yet to come" (September

Dun's Review

Despite war clouds, business sentiment continues good and domestic recovery proceeds cautiously; reports for early September indicate bumper crop prospects, improvement in trade activity, and slight gains in industry (October).

Bank clearings, 22 U. S. cities, August, \$19,716,315,000, 8.8% below July, 11.4% below a year ago; Adjusted Insolvency Index (Failures) August, 60.7, compared with 61.6 in July and 44.8 a year ago (October).

Security trading was somewhat less active as a net result of the necessity of digesting previous price gains and of the uncertain European situation; August volume showed a drop from July of more than 18,000,000 shares or 46.5% (October).

Preliminary estimates of industrial production showed an increase from July to August, as steel and automobile output advanced and machine tool orders reached a new high for this year (October).

Unusually hot weather in many sections during August caused a moderate decline in the adjusted index of department store sales, with volume about 6% below last August; rural sales showed a more than seasonal increase from July to August (October).

Building permits (Dun & Bradstreet), 215 cities, for August were 28.5% below July, 15.0% above last August; Dodge construction contracts (37 states), August, \$313,141,000, 30% over July, 12% over last August, largest volume since July, 1937 (October).

Crop prospects declined slightly during the month of August, mainly due to drought in the corn regions; all yields except winter wheat are expected to be above average (October).

Although Dun & Bradstreet's Daily Commodity Price Index declined during the first part of August, it rose later in the month; on September 12 the index was 24% below the same day of 1937 (October).

Factory employment and payrolls showed further advances during August as steel plants and automobile producers increased activity; average weekly earnings of factory workers in 25 industries, as reported by the NICB, increased 18 cents from June to July (October).

Cleveland Trust Company

Despite the recent and continuing upturn, it still seems probable that in statistical terms the year 1938 will prove to be the most severe depression year in our history except 1932 (September 15).

The volume of physical production fell steadily from August, 1937, until May of this year, when it hit bottom; it increased in June and July, and apparently there was a moderate rise from July to August (September 15).

The total value of contracts awarded for new construction in July, 1938, was about 25% below July, 1937, but the value of those for public works was considerably higher, and contracts for new residential building were somewhat larger (September 15).

The prospect of large crops is one of the factors contributing to current business encouragement (September 15).

With present wages and prices, the iron and steel industry must produce at about 60% of capacity to meet expenses and have a profit; operating now at slightly more than 40% of capacity, the industry will sustain serious losses this year (September 15)

Business abroad continues to slow down, and world trade is shrinking; because of war alarms there can be little incentive for risk-taking in the expansion of enterprise in Europe and the Orient (September 15).

National City Bank

If September brings good reports, in the shape of satisfactory retail trade, a good reception of new auto models, and reasonably firm markets, the prospect for further recovery in the Fall and Winter will be viewed everywhere with confidence (September).

An upward trend in loans to business has been the most noteworthy development in banking reports during August; it presumably marks a turn in the downward trend of business loans, which has run since last October (September).

The slowing down in the markets is welcome, for speculative markets were moving faster than business improvement could possibly go (September).

Compared with two or three months back, the industrial situation has been strengthened substantially; the spurt in the markets enabled the metal and textile industries, in particular, to raise operations to the best rate in many months (September).

Department store sales in August have run about 12% behind last year, as they did during July; mail order sales are showing a decreasing percentage of decline from the same month last year (September).

Building figures are more encouraging; in May, residential contract awards were practically equal, for the first time, to the same month a year earlier; and in June, July and early August they have run substantially ahead (September).

According to estimates by the Department of Agriculture, farm cash income during the last five months of the year will probably be about 3½ billion dollars against four billions in the same period of 1937—a decline of 12½% (September).

Prices of wheat and corn are only about half what they were a year ago, and cotton, livestock and other products are also substantially lower (September).

It should be understood that the apparent instability of gold, as seen in the fluctuations of currencies in their relations to gold, is not in gold, but in the changing conditions of the currencies themselves, and the state of trade in the various countries (September).

Extensive Program Announced For Production Conference, Nov. 9-10

A very important feature of the Production Conference to be held at the Hotel Pennsylvania, New York City, November 9 and 10 will be three concurrent sessions on "Quality Control Through Inspection and Test," according to Raymond S. Perry, Vice President of the Ingersoll Milling Machine Company and Vice President of the AMA Production Division.

Mr. Perry points out that the problem of setting up those inspections, tests, material controls and related procedures to guarantee quality results at minimum cost is one that affects all operations managed by the production executive. It involves organization and questions of jurisdiction and relates to customer good will as well as to production

routine. Mr. Perry's planning committee received many requests to include this

subject this year.

Because inspection and test procedures are determined by the type and magnitude of the industrial operations involved, the discussion of this important subject will be handled in three concurrent sessions. An attempt has been made to develop three groups on the basis of (broadly) similar inspection and test problems. Separate meetings with individual chairmen and discussion leaders will therefore be held.

Specific Topics

Among the important problems to be discussed in each group are: 1. Where should responsibility for inspection supervision rest? 2. How can quality consciousness be developed in plant personnel? 3. Means of converting customer dissatisfaction into changed engineering and inspection standards. 4. Quality control by means of reward to the individual operator. 5. Centralized vs. decentralized inspection. 6. How frequently should the inspection procedure itself be analyzed?

Mr. Perry emphasizes that the most valuable part of these programs on inspection and test will be the floor discussion following the presentation of the paper by the leading speaker. Those attending are asked to present questions and experiences based on their own operations. A question box for handing in written questions or suggestions will be provided. All are urged to make use of it.

* * * * *

The other topics for discussion, as already reported in the News Letter, give thorough coverage of the production executive's "bread-and-butter" problems. They include: A Symposium on Unit Costs (the entire first day); Public Relations; Development of an Effective Personnel Program; Job Evaluation and Wage Classification; and Inventory Control.

Board Meeting

A dinner meeting of the AMA Board of Directors will be held on Wednesday, November 9 at 6:30 P.M., following the first day's sessions of the Production Conference. The location of the meeting will be announced later.

LEADING CONFERENCE



RAYMOND S. PERRY

Office Management Conference Brings Large Attendance

Meeting is Marked By Valuable Discussion

Office managers and other executives from companies throughout the country attended the AMA's Office Management Conference which was held on October 5 and 6 in New York City. The conference touched on nearly all phases of office management and placed particular emphasis on personnel problems, such as employee selection, compensation, and training.

With 525 registrants attending the various sessions and participating in the proceedings, the conference gave a broad realistic picture of management progress, and was marked by intensely interesting discussions. A Questions and Answers "smoker" which brought out the principal problems in the minds of office executives, was the high spot of the meeting. Questions presented during this session concerned such topics as: methods of estab-

lishing wage systems, purchasing systems, and motion economy in the office.

Among the outstanding papers heard was one by Dr. E. B. Roberts, Assistant to the Vice President, Westinghouse Electric & Manufacturing Company, which described an experiment to discover the effectiveness of a company personnel policy made in a large industrial plant. The experiment involved the mass interviewing of 2500 employees. Interviews disclosed that employees form most of their opinions about the company and its management from the manner in which their own particular jobs are conducted. Employees wanted to do work that they liked and judged the company from the standpoint of the work itself.

A very practical paper by W. E. Tarr, General Office Manager of the Studebaker Corporation of South Bend, Ind., showed how that company has effected large savings in communications costs by a thorough study of postal, telegraph, and tele-

phone systems.

Other topics which received unusual attention were: "Setting up a Work Simplification Program for the Office," "Job Evaluation and Salary Standardization," and "A Short Cut to Expense Control."

MANAGEMENT CONGRESS PROCEEDINGS

AMA members who wish to obtain the printed proceedings of the Seventh International Management Congress may purchase copies of the various volumes through the Congress' New York office. Six volumes of literature bearing on personnel, production, distribution, agriculture, administration, and home management have already been published, and a seventh volume which will contain the discussions heard at the Congress will be issued in a few weeks. All seven volumes may be obtained for \$7.50. Orders should be sent to Nathaniel W. Barnes, Room 1201, 347 Madison Avenue, New York City.

Labor Board Ruling (cont'd)

of the supervisory employee must bind the employer unless effectively disavowed." This holds even though the supervisory employees are members of a union.

In the case in which the ruling applied, it meant that electioneering in behalf of a union to which the supervisors belonged was sufficient to invalidate an election. This ruling illustrates one of the most difficult aspects of the NLRA. In this case an A. F. of L. union won the election, which was set aside by the Board when it investigated charges by a C.I.O. union that company foremen, members of the A. F. of L. union, had made disparaging remarks about the C.I.O. union and threatened employees with loss of their jobs if the C.I.O. union won the election.